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Arizona Corporation Commission

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BEFORE THE ARIZONA CORPORATION COMMISSION

JAN 06 1997

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AZ CORP COMMISSION

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6 IN THE MATTER OF THE PETITION OF)
AMERICAN COMMUNICATIONS SERVICES,)
7 INC. AND AMERICAN COMMUNICATIONS)
SERVICES OF PIMA COUNTY, INC. FOR)
8 ARBITRATION WITH U S WEST)
COMMUNICATIONS, INC. OF)
9 INTERCONNECTION RATES, TERMS, AND)
CONDITIONS PURSUANT TO 47 U.S.C.)
10 § 252(b) OF THE TELECOMMUNICATIONS)
ACT OF 1996.)
11

DOCKET NO. U-3021-96-448 ✓
DOCKET NO. U-3245-96-448 ✓
DOCKET NO. E-1051-96-448

12 IN THE MATTER OF THE PETITION OF)
AT&T COMMUNICATIONS OF THE)
13 MOUNTAIN STATES, INC. FOR)
ARBITRATION WITH U S WEST)
14 COMMUNICATIONS, INC. OF)
INTERCONNECTION RATES, TERMS, AND)
15 CONDITIONS PURSUANT TO 47 U.S.C.)
§ 252(b) OF THE TELECOMMUNICATIONS)
16 ACT OF 1996.)
17

DOCKET NO. U-2428-96-417 ✓
DOCKET NO. E-1051-96-417

18 IN THE MATTER OF THE PETITION OF)
MFS COMMUNICATIONS COMPANY, INC.)
FOR ARBITRATION WITH U S WEST)
19 COMMUNICATIONS, INC. OF)
INTERCONNECTION RATES, TERMS, AND)
20 CONDITIONS PURSUANT TO 47 U.S.C.)
§ 252(b) OF THE TELECOMMUNICATIONS)
21 ACT OF 1996.)
22

DOCKET NO. U-2752-96-362 ✓
DOCKET NO. E-1051-96-362

23 IN THE MATTER OF THE PETITION OF)
TCG PHOENIX FOR ARBITRATION WITH)
U S WEST COMMUNICATIONS, INC. OF)
24 INTERCONNECTION RATES, TERMS, AND)
CONDITIONS PURSUANT TO 47 U.S.C.)
25 § 252(b) OF THE TELECOMMUNICATIONS)
ACT OF 1996.)
26

DOCKET NO. U-3016-96-402 ✓
DOCKET NO. E-1051-96-402

1 IN THE MATTER OF THE PETITION OF)
2 MCIMETRO ACCESS TRANSMISSION)
3 SERVICES, INC. FOR ARBITRATION OF)
4 THE RATES, TERMS AND CONDITIONS OF)
5 INTERCONNECTION WITH U S WEST)
6 COMMUNICATIONS, INC. PURSUANT TO)
7 47 U.S.C. § 252(b) OF THE)
8 TELECOMMUNICATIONS ACT OF 1996.)
9)
10)

DOCKET NO. U-3175-96-479 ✓
DOCKET NO. E-1051-96-479

11 IN THE MATTER OF THE PETITION OF)
12 BROOKS FIBER COMMUNICATIONS OF)
13 TUCSON, INC. FOR ARBITRATION OF THE)
14 THE RATES, TERMS AND CONDITIONS OF)
15 INTERCONNECTIONS WITH U S WEST)
16 COMMUNICATIONS, INC. PURSUANT TO)
17 47 U.S.C. § 252(b) OF THE)
18 TELECOMMUNICATIONS ACT OF 1996.)
19)
20)

DOCKET NO. U-3009-96-478 ✓
DOCKET NO. E-1051-96-478

21 IN THE MATTER OF THE PETITION OF)
22 SPRINT COMMUNICATIONS COMPANY, L.P.)
23 FOR ARBITRATION WITH U S WEST)
24 COMMUNICATIONS, INC. OF)
25 INTERCONNECTION RATES, TERMS, AND)
26 CONDITIONS PURSUANT TO 47 U.S.C.)
§ 252(b) OF THE TELECOMMUNICATIONS)
ACT OF 1996.)
27)
28)

DOCKET NO. U-2432-96-505 ✓
DOCKET NO. E-1051-96-505

29 IN THE MATTER OF THE PETITION OF)
30 GST TUCSON LIGHTWAVE, INC.)
31 FOR ARBITRATION OF THE)
32 RATES, TERMS, AND CONDITIONS OF)
33 INTERCONNECTION WITH U S WEST)
34 COMMUNICATIONS, INC. PURSUANT TO)
35 47 U.S.C. § 252 (b) OF THE)
36 TELECOMMUNICATIONS ACT OF 1996.)
37)
38)

DOCKET NO. U-3155-96-527 ✓
DOCKET NO. E-1051-96-527

39 U S WEST COMMUNICATION'S MOTION TO SEVER COST ISSUES AND ESTABLISH
40 ADDITIONAL COST RECOVERY PROCEEDING AND ALTERNATIVE MOTION FOR
41 EXTENSION OF TIME TO FILE PREFILED DIRECT TESTIMONY

42 U S WEST Communications, Inc. ("USWC") hereby moves the
43 Arbitrators to sever the issue of the creation of an appropriate
44 mechanism for the apportionment of the cost of USWC's electronic
45 interfaces ("OSS cost recovery") from the arbitration hearing
46

1 currently set for the purpose of determining permanent quality of
2 service measurements and that the issue of OSS cost recovery be made
3 part of an additional consolidated hearing to determine an
4 appropriate mechanism for the recovery of USWC's costs of
5 implementing the mandates of the 1996 Telecommunications Act (the
6 "Act"), the FCC First Report and Order ("First Report and Order"),
7 and the decisions of the Commission in the arbitrations undertaken
8 pursuant to the Act (the "Arbitration Decisions"). Alternatively,
9 USWC moves for an extension of time to file its written direct
10 testimony with respect to OSS cost recovery issues from January 10,
11 1997 to January 24, 1997. This motion is supported by the attached
12 memorandum of points and authorities.

13 **MEMORANDUM OF POINTS AND AUTHORITIES**

14 On December 13, 1996, the Arbitrators entered an order
15 providing that the issue of determining an appropriate mechanism for
16 USWC to recover the cost of its electronic interfaces would be
17 consolidated into the pending generic proceedings for determining
18 service quality measures. While the establishment of a generic
19 proceeding to consider OSS cost recovery is both necessary and
20 appropriate, that issue should not be considered as part of the
21 generic service quality measurement proceedings for two reasons.
22 First, OSS costs are only a portion of the costs USWC will incur in
23 fulfilling the mandates of the Act, the Report and Order and the
24 Arbitration Decisions and a single consolidated generic proceeding
25 to consider recovery for all such costs is appropriate. Second, due
26 to the workload created by the existence of multiple arbitrations in

1 the 14 U S WEST states, USWC cannot adequately prepare testimony
2 dealing with OSS cost recovery by January 10, 1997.

3 The Act imposes a variety of duties upon USWC and other
4 incumbent local exchange carriers ("ILECs") that will require
5 investment by those ILECS to facilitate the introduction of
6 competition into the local exchange markets. Section 251(b) of the
7 Act imposes, inter alia, upon all local exchange carriers, including
8 USWC, the mandated duties of resale, number portability, dialing
9 parity, and access to rights of way. Section 251(c) imposes on USWC
10 additional obligations including primarily the duties of inter-
11 connection and unbundled access. The Act contains no mechanism for
12 financing or paying for unplanned network upgrades, the acceleration
13 of planned network upgrades to comply with state or federal
14 mandates, extensions and/or modifications of network facilities or
15 operational support systems including data bases and electronic
16 interfaces, (collectively referred to throughout as "network
17 rearrangements"), all of which are necessary to provide USWC's
18 competitors with interconnection, access to unbundled elements and
19 the ability to resell USWC's retail services.

20 Neither the First Report and Order nor the implementing
21 regulations issued therewith contain or create a funding mechanism
22 for extraordinary start-up or one time charges necessary for network
23 rearrangements to provide interconnection or unbundled access to
24 competitive local exchange carriers ("CLECs"). No other source of
25 payment exists or has been created federally or locally that will
26 provide USWC with full or timely recovery for all of its network

1 rearrangement costs.

2 The arbitration orders issued by this Commission further
3 require USWC to incur network rearrangement costs without providing
4 a mechanism for the recovery of those costs. For example, part of
5 USWC's network rearrangement costs will include costs to add
6 additional interoffice transport facilities and to add additional
7 capacity at the tandem. Because the Commission has adopted bill and
8 keep in its arbitration of individual CLEC interconnection
9 agreements, USWC will not receive any cost recovery for these
10 additional facilities from the charges for transport and
11 termination.

12 Through the third quarter of 1996, USWC has incurred region-
13 wide costs of over \$16 million for network rearrangements. USWC
14 incurred systems costs in order to start the process of making
15 software changes to allow for service assurance, capacity
16 provisioning, billing and service delivery for CLECs. Also, USWC
17 incurred costs to expand network capacity in its tandems and
18 interoffice facilities in order to accommodate the CLECs'
19 anticipated traffic demands on USWC' network. Finally, USWC
20 incurred start-up costs associated with the establishment of service
21 centers to process CLEC service orders. USWC expects that it will
22 continue to incur these one-time, extraordinary costs on an
23 accelerated basis during the period of 1997 through 1999.

24 Forward-looking cost studies do not include one-time,
25 extraordinary costs. Thus, the TELRIC-based prices for
26 interconnection services, unbundled network elements and other

1 services will not provide cost recovery for the network
2 rearrangement costs. Similarly, the rate making process has
3 traditionally excluded one-time costs from recovery in the revenue
4 requirement established in a general rate case.

5 For these reasons, and because no current or proposed rate or
6 charge will provide an opportunity for USWC to recover all of these
7 extraordinary, one-time or start-up network rearrangement costs,
8 USWC proposes an interconnection cost adjustment mechanism ("ICAM")
9 to recover the totality of such costs. The ICAM is limited to one
10 time or start-up extraordinary charges for network rearrangements
11 mandated by the Act for the convenience and use by USWC's
12 competitors, and to facilitate USWC's existing customers' ability to
13 choose a different local exchange service provider.

14 As identified by USWC, the network rearrangement costs fall
15 into three main categories of service: resale, interconnection, and
16 unbundling.¹ The foregoing costs derive from FCC and Commission
17 Orders, so the requirement to invest is presently known and
18 mandated. However, because of the uncertainty over what network
19 rearrangements ultimately will be required for interconnection
20 services, and how much, if anything, will be paid from as yet
21 undefined support mechanisms, it is appropriate to adopt a payment
22 mechanism that can serve as a cost collection and revenue disburse-

23
24 ¹ The Commission should not consider these categories as
25 exclusive since all implementation costs may not fall into neat
26 categories. The Commission should allow the cost recovery mechanism
to have sufficient flexibility to capture costs that may not fit in
any of the three specific categories defined by USWC in this
Application.

1 ment device, subject to true-up, over a reasonable period of time.

2 USWC proposes that the Commission establish one of the
3 following ICAM recovery mechanisms:

4 A This option would recover the costs for interconnection
5 services from CLECs, rather than from USWC's retail
6 service end users. The interconnection costs described
7 above must be incurred by USWC to provide industry-wide
8 opportunity and competition, but they do not benefit
9 USWC's end user customers. The CLECs benefit and are the
10 costs causers. Therefore, they should pay for the network
11 rearrangements and other changes required by law for their
12 benefit. The Commission could place the burden of
13 recovery of interconnection costs on CLECs, based on the
14 number of CLECs that have applied for certification, have
15 entered a negotiation process or expressed interest in
16 negotiating. Distributing the costs equally across all
17 CLECs is only one of many options. The Commission could
18 also elect to spread the costs based on any of the
19 following methodologies:

- 20 (1) The number of customers the CLEC serves.
21 (2) The number of access lines the CLEC serves.
22 (3) The revenue stream of the CLEC.
23 (4) The number of customers in the CLEC's defined
24 service area.

25 The surcharge will be payable on a quarterly basis
26

1 over a three-year period.² Because the CLECs will
2 operate in different manners (i.e., pure reseller,
3 pure facilities based, or facilities based, using
4 some USWC unbundled elements), USWC further proposes
5 to recover costs specified in the three categories
6 previously identified by USWC (resale, unbundling,
7 and interconnection) from CLECs engaging in those
8 business operations. In this way, for example, a
9 pure reseller will not pay for network rearrange-
10 ments required by facilities based providers of
11 service. This approach will target cost recovery
12 from the cost causer.

13 - or -

14 B. USWC could recover its interconnection costs from a
15 monthly surcharge assessed on all access lines sold out of
16 both the exchange and access tariffs. For USWC access
17 lines, this charge would be levied on all lines that
18 currently are assessed a federal end user common line
19 "EUCL" charge³. The ICAM surcharge will be the same for
20 all classes of service and will not be discounted for
21 resold access lines. Additionally, competitive local
22

23 ² The Commission should allow CLECs to propose a charge on
24 their end users to recover any amounts payable to USWC under this or
25 any other applicable option described by USWC or adopted by the
Commission.

26 ³ End user common line charge set by the FCC collected under
interstate tariffs.

1 exchange carriers (CLECs) purchasing an unbundled local
2 switching port or an unbundled local loop would be charged
3 the ICAM surcharge⁴. The ICAM process described above
4 would need to be supplemented with an additional process
5 in order to assess the surcharge to CLECs with both their
6 own facilities and switch. To be competitively neutral,
7 the Commission should require these CLECs to self report,
8 on a quarterly basis, the number of access lines they
9 serve and those lines should be assessed the ICAM
10 surcharge, payable to USWC, within thirty (30) days by
11 bulk payment.

12 -or-

13 C. Any combination of options A and B.

14 Under any of the above options, USWC requests that the
15 Commission approve the mechanism for the proposed surcharge in this
16 proceeding. In its direct testimony, USWC will propose initial
17 surcharges based on estimates. In the second quarter of 1997, USWC
18 will update these estimates based on its first quarter actual
19 incurred costs for network rearrangements. The monthly surcharge
20 will be based on a rolling average for a 36-month period, with
21 quarterly amounts added to the surcharge and unrecovered amounts
22 being amortized over the remainder of the 36-month period. At the
23 end of the three-year period during which ICAM is in effect, USWC

24 _____
25 ⁴ USWC advocates that a CLEC should not be allowed to purchase
26 an unbundled loop and an unbundled port. However, if the Commission
does allow this situation to occur, then the ICAM surcharge should
be billed only on the unbundled loop.

1 will conduct a final true-up and implement a surcharge to recover
2 all costs expended during the three-year period, but not fully
3 recovered at the time of the true-up.

4 On an annual basis, USWC will submit for audit its actual
5 network rearrangement costs incurred during the previous year. As
6 a result of the audit, the Commission may true-up the ICAM
7 surcharge, and modify the going forward tariffed surcharge. This
8 process will be repeated annually. The revenues used in the true-up
9 process will include ICAM revenues and any other revenues to the
10 extent they are directly attributable to the recovery of the
11 extraordinary, one-time or start-up costs incurred by USWC (i.e.,
12 receipts from transport services). USWC will identify the costs
13 used in the quarterly adjustment and annual true-up processes
14 through documented tracking procedures which USWC and Coopers &
15 Lybrand have developed and are in the process of implementing.

16 Regardless of the alternative chosen, if other sources provide
17 funding, in whole or in part, for any interconnection services or
18 network arrangements subject to this Application, USWC will credit
19 them against the total due hereunder.

20 USWC fully expects to identify and include other interconnec-
21 tion costs as the requirements for network rearrangements become
22 more clear. It reserves the right to add additional costs cate-
23 gories to ICAM in the quarterly filings.

24 The establishment of a generic docket to consider adoption of
25 an ICAM or similar mechanism that includes the recovery of all
26 network rearrangement costs including OSS cost recovery will permit

1 the Arbitrators to deal with all of the costs of implementation
2 imposed by the Act, the First Report and Order and the Arbitration
3 Decisions in a single proceeding with a coordinated recovery of all
4 of these costs. Such a generic proceeding dealing with all cost
5 recovery issues will provide the most efficient and prompt method of
6 resolving these important issues. USWC proposes that a generic
7 interconnection cost recovery hearing to consider USWC's ICAM
8 proposal be set for April of 1997 with direct testimony filed in the
9 second half of February of 1997 and response and rebuttal testimony
10 filed in March of 1997.

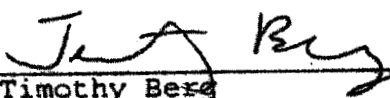
11 Alternatively, if the Arbitrators determine that the OSS cost
12 recovery issues should not be severed from the service quality
13 measurement proceedings, USWC requests that the Arbitrators extend
14 the deadline for USWC to file its written direct testimony on OSS
15 cost recovery issues from January 10, 1997 to January 24, 1997 with
16 appropriate adjustments to the other deadlines for filing testimony
17 concerning OSS cost recovery. This request is necessary because
18 many of the individuals who would otherwise assist in the
19 preparation of OSS testimony for USWC are also involved in
20 arbitrations in other states. Further, these same individuals are
21 the very employees who are directing the actual development of the
22 OSS systems. Due to the heavy demand on the time of these
23 individuals, USWC will not be able to complete its OSS cost recovery
24 testimony by January 10, 1997. Because of the closeness of the
25 January 10, 1997 deadline, USWC asks for a prompt ruling on this
26 motion.

1 DATED this 6th day of January, 1997.

2 Respectfully submitted,

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18 the foregoing delivered for
19 filing this 6th day of
20 January, 1997 to:

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25 COPY of the foregoing hand-delivered
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